

THE ECONOMIC RESPONSIBILITIES OF STATE (AND LOCAL) GOVERNMENT

Presentation by

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I am very grateful for the opportunity to address you. I will speak about the macroeconomic and microeconomic responsibilities of State (and local) government.

Macroeconomics refers to the performance of the economy as a whole. The government has two responsibilities in this regard. The first is to contribute to economic stability. The second is to provide an economic safety net.

In order to stabilize the economy, the government has to increase its spending when other sectors of the economy are reducing theirs. This is also necessary to maintain the “safety net”, which is most important precisely at those times when the private economy is less robust.

The State of Colorado, as well as most other States, has failed utterly in its macroeconomic responsibilities. Instead of supporting the economy, the State is reducing its spending, and doing so more drastically than most other sectors.

Instead of combating recession, the State government is making it worse. Instead of stepping up to help people when they need it most, the State is withdrawing support when there are the fewest alternatives. At this time, nothing that the State can do in terms of redirecting funding or fiddling with tax rates can begin to repair the macroeconomic damage which the State has done to our economy.

However, in the future, there is a better way. Save. Save during the fat years so that you can spend during the lean years. This is the practice which made Joseph the most successful public administrator in the Bible. It’s the right practice for our current and future administrations, as well.

Microeconomics refers to the economic activity of individual actors. In microeconomic terms,

the State again has two responsibilities: to provide appropriate public services and to provide an appropriate context for private economic activity.

Macroeconomically, the State isn't doing what it should. Microeconomically, the State is doing things which it shouldn't. The State should never be in the business of providing subsidies to individual businesses or locations.

Examples of this are the State Enterprise Zone program and the subsidies which may ultimately be given to a racecar track. The first is already a failure. The second is doomed to be. Subsidies such as these are not "business friendly". They are "friendly to a business" which means that they are unfriendly to all other businesses.

There is no credible scientific evidence from this country or any other that governments are good at "picking winners" in this way. The predictions which justify these subsidies are typically based on reasoning which has no foundation or validation in economic science. These predictions are almost surely over-optimistic because there is never a penalty if they turn out to be wrong.

In general, the State government should be very careful about policies which purport to "create jobs". The State can and should create jobs for the purpose of providing State services.

It may also have a legitimate interest in creating jobs for individuals who, however defined, would not otherwise be able to obtain employment. However, this sort of employment is "welfare". It should be managed as such, to ensure that only truly needy individuals benefit.

For private sector jobs which are not welfare, there are two types: those which would be in Colorado without subsidies and those which only would be here with subsidies. Subsidies are wasted on the first type of jobs because they would be here anyway. Subsidies are wasted on the second type of job because they are fundamentally unsuited to our economy, and destined to be either marginal or in need of perpetual state support.

Instead, the State government should devote its resources to the provision of legitimate government services: maintaining security, public health and justice, investing in infrastructure and in the education of our children.

This is what the citizens and the business community, as a whole, really want. If the state government provides the appropriate context, the private sector will thrive through its own efforts and even, perhaps, be grateful.